

CPP ANNUAL USE OF CAPITAL SURVEY - 2010



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Beach Business Bank

Point of Contact:	Kathleen Salmons	RSSD: (For Bank Holding Companies)	0
UST Sequence Number:	416	Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	6,300,000	FDIC Certificate Number: (For Depository Institutions)	57678
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	January 30, 2009	City:	Manhattan Beach
Date Repaid ¹ :	N/A	State:	California

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

☒ **Increase lending or reduce lending less than otherwise would have occurred.**

The CPP funds allowed the Bank to continue originating over \$125 million in new loans during the year that it may not otherwise have done. The origination number represents gross new extensions of credit before pay-downs, sold participations or unused available credit.

☒ **To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).**

Of the \$125mm, the Bank originated over \$33 million in SBA 7a loans during the year, \$62.9 million in commercial loans, and \$22.8 million in commercial real estate loans. Loans grew by 17.3% from 12/09 to 12/10 per our Call Report. Commercial loans increased \$5.9 million.

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☐ Increase securities purchased (ABS, MBS, etc.).

☐ Make other investments.

☐ Increase reserves for non-performing assets.

☐ Reduce borrowings.

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☒ **Increase charge-offs.**

The Bank had net charge-offs of \$3.3 million in 2010 down from 2009's charge-offs of \$4 million. Loans secured by RE comprised 83.32% or \$2.8 million of the net charge-off. The CPP funds provided us the ability to recognize the losses and still maintain a healthy capital base.

☐ **Purchase another financial institution or purchase assets from another financial institution.**

☐ **Held as non-leveraged increase to total capital.**

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What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

As a result of the CPP funds, Beach Business Bank was able to avoid reducing its loan origination activities, laying-off staff, and still maintain a strong capital base while increasing its loan loss reserve and charging-off over \$3.3 million in loans. The CPP funds allowed the Bank to continue serving its customers and community in Southern California without a reduction in service, locations or offerings.

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What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

The CPP funds allowed the Bank to continue to grow in 2010. The Bank had a strong performance in 2010 with a return on average common equity, pre-tax and pre-provision, of 13.58% up from 0.81% in 2009. Besides, the significant loan origination number of \$125 million, the Bank added 3 full-time positions to staffing, continued to grow our presence in Los Angeles and Orange counties, and was able to provide \$2.4 million to the loan loss reserve keeping the reserve at 2.33% of loans held for investment. Furthermore, the CPP funds are reflected as non-cumulative preferred stock and are included in our capital base. Beach Business Bank's Tier 1 Leverage ratio was 11.80% and its Total Risk Based Capital ratio was 14.97% at 12/31/10. Both ratios are well over FDIC's regulatory minimums of 5% and 10%, respectively, for a "Well Capitalized" institution. The strong capital base permits the Bank to continue growing in a measured, controlled fashion that best leverages the strengths and skills of the organization.

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Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.